

EXHIBIT II

To Mortgage Credit
Certificate Agreement



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Maryland Relay for the
Deaf:
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Larry Hogan,
Governor

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Lieutenant Governor

Tiffany Robinson,
Assistant Secretary and
Director, Community
Development
Administration

mmp.maryland.gov



LENDER'S COMPLIANCE MANUAL

for

Maryland HomeCredit Program

[Revised 5/28/14]

The Maryland Department of Housing and Community Development (DHCD) pledges to foster the letter and spirit of the law for achieving equal housing opportunity in Maryland.

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Attachments

(On the website at <http://mmp.maryland.gov/Lenders/Pages/Loan-Documentation.aspx>)

Forms are subject to change – most current form should be used

- A. Separation Affidavit- (08/31/99)
- B. Request for Transcript of Tax Return – IRS Form 4506T (Rev. January 2011)
- C. Housing Counseling – Lender Certification of Completion (12/08/06)
- D. Income Eligibility Worksheet and Lender Certification (12/12/11)
- E. **NOT IN USE**
- F. Asset Test Worksheet (06/14/07)
- G. **NOT IN USE**
- H. Initial Interview Checklist (12/01/03)
- I. **NOT IN USE**
- J. Affidavit In Lieu of Current Year's Tax Returns (08/31/99)
- K. **NOT IN USE**
- L. Post-Closing Compliance and Purchase Checklist (06/09/10) [For Assurance Program Only]
- M. **NOT IN USE**
- N. Additional Buyers Affidavit Relating to Business Use of Residence (01/11/99)
- O. Bogman, Inc. Contact List (12/11/08) [For Assurance Program Only]
- P. **NOT IN USE**
- Q. **NOT IN USE**
- R. Request for Change to Reservation of Funds form (06/01/14)
- S. Affidavit Regarding Not Being Required to File Tax Return(s) (08/31/99)
- T. Certification of Pregnancy (03/15/05)
- U. **NOT IN USE**
- V. Veteran First-time Homebuyer Exemption Certification (07/03/12)

- AA. **NOT IN USE**
- BB. **NOT IN USE**
- CC. MMP/MBS/MHCP Pre-Closing Compliance Checklist (06/01/14)
- DD. DPA Pre-Closing Compliance Checklist (04/01/14)
- EE. MMP/MBS/MHCP Post-Closing Compliance Checklist (06/01/14)
- FF. DPA Post-Closing Compliance Checklist (04/01/14)

MHCP Documents

(On the website at <http://mmp.maryland.gov/Lenders/Pages/Loan-Documentation.aspx>)

Subject to change by Program Directives and Fact Sheets

1. Buyer's Affidavit (04/28/14)
2. Buyer's/Borrower's Confirming Affidavit (04/28/14)
3. Seller's Affidavit (04/28/14)
4. Seller's Confirming Affidavit (04/28/14)
5. Recapture Tax Notice (05/06/14)

MARYLAND DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

CDA/SINGLE FAMILY HOUSING

Administration

Director	Tonna Phelps	(410) 514-7509 phelps@mdhousing.org
Deputy Director	Maddy Ciulu	(410) 514-7778 ciulu@mdhousing.org
Secretary	Cassandra Holmes	(410) 514-7495 holmes@mdhousing.org

Lender Relations

Business Development Manager	Cecilia Weller	(410) 514-7014 weller@mdhousing.org
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Loan Operations

Manager	Jacquelyn Mitchell	(410) 514-7501 mitchell@mdhousing.org
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Fax, Telephone Numbers, E-mail Addresses and Electronic Submissions

PERE- AND POST-CLOSING COMPLIANCE REVIEW (CDA/SFH)

Submit Pre- and Post-Closing
Files

Email:

Submit to eDocs on Lender-Online

<https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection>

Suspense Questions

Call

(410) 514-7530

E-mail

SingleFamilyHousing@dhcd.state.md.us

Suspense Conditions

E-mail

Submit to eDocs

<https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection>

Attachment R

Fax

(410) 510-1762

Information – Websites

MD HomeCredit Program	https://mmp.maryland.gov/MDHomeCredit
Lender Online (LOL)	https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection
Loan Status on LOL	https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection log in and click on “Loan Status”
Maryland Mortgage Program	http://mmp.maryland.gov
Interest Rates	http://mmp.maryland.gov/Pages/Interest-Rates.aspx
Loan Documents and Attachments	http://mmp.maryland.gov/Lenders/Pages/Loan-Documentation.aspx
Directives	https://mmp.maryland.gov/Directives.aspx
U.S. Bank Lending Guide	http://mrbp.usbank.com

PURPOSE

The objective of the Maryland HomeCredit Program (the "MHCP") is to provide homeownership opportunities to eligible low to moderate income homebuyers in the State of Maryland. The Community Development Administration ("CDA") accomplishes this objective by issuing Mortgage Credit Certificates ("MCCs") to eligible mortgagors who may use the MCCs to claim a credit on their federal tax returns for a portion of the interest they pay on mortgage loans to finance the purchase of a principal residence. The tax credit percentage is 25% of the interest paid on the mortgage each year up to a maximum \$2000 credit per year – this is a dollar-for-dollar reduction against the borrower's federal tax liability. The remaining portion of the mortgage interest continues to qualify as an itemized deduction. The annual amount the borrower receives will change as the mortgage loan amount decreases, but the tax credit percentage never changes. The mortgage loans in the MHCP are made by the Lenders independently of CDA or in conjunction with one or more of CDA's mortgage loan programs. The mortgage loans cannot be made with the proceeds of tax-exempt qualified mortgage bonds or qualified veteran's mortgage bonds issued by CDA or any other entity.

The MHCP is offered pursuant to Title 2, Subtitle 4 of the Housing and Community Development Article of the Maryland Annotated Code ("the Act"). MCCs will be issued only in conformance with the Act, Program Documents, and applicable federal tax law.

The Lender agrees in the Mortgage Credit Certificate Agreement (the "Agreement"), of which this Lender's Compliance Manual (the "Manual") is a part, to comply with the requirements set forth in this Manual. CDA must rely upon all participating Lenders to comply with the requirements of the MHCP when making mortgage loans to be certified by MCCs issued by CDA.

Many of the eligibility requirements for borrowers and properties in the MHCP are the same as the requirements for CDA's Maryland Mortgage Program ("MMP") for loans financed with tax-exempt bonds. Accordingly, many of the documents to be used in connection with the MHCP are the same as for MMP loans, such as the Buyer's and Seller's Affidavits.

The purpose of this manual is to outline State and federal requirements with which participating Lenders must comply. Documents referred to in this Manual will be listed as Attachments (refer to list on page 1) or as MHCP Documents (refer to list on page 2); they may be accessed at <http://mmp.maryland.gov/Lenders/Pages/Loan-Documentation.aspx>.

APPROVAL OF PARTICIPATING LENDERS

The approval process involves the submission of certain information to CDA for review and approval as a Correspondent Lender.

The Lender provides requested documentation and executes the Mortgage Credit Certificate Agreement, which forms the contractual relationship governing participation in the MHCP by the Lender and CDA.

Prior to approval, the Lender is required to have its staff participate in the designated training before it can reserve MCCs under the MHCP. The Lender's designated Administrative Contact will receive a user name and password that will permit access the reservation system and allow set-up of user accounts for the Lender's staff.

By signing the Agreement, the Lender agrees to process loans in compliance with the Lender's Compliance Manual and to use the MHCP Documents as specified.

If you have any questions concerning this process or wish to become an approved Lender, please view our website at <https://mmp.maryland.gov/MDHomeCredit>, or E-mail SingleFamilyHousing@mdhousing.org .

AVAILABILITY OF MCCs

The MHCP is a new program established in 2014. Lenders may provide their own funding for MCC loans, which are certified by CDA, or loans may be provided by taxable financings pursuant to CDA's MMP or other programs. CDA issues the MCCs to the mortgagor c/o the Lender at or shortly after closing.

LENDERS ARE RESPONSIBLE FOR OBTAINING A RESERVATION NUMBER BEFORE COMMITTING TO A BORROWER.

RECAPTURE TAX REIMBURSEMENT

Federal law provides for a *possible* Recapture Tax when some homeowners sell their home within the first nine years after receiving an MCC. The Recapture Tax applies to sales of residences financed by MCCs on the same basis as it applies to bond-funded loans in CDA's MMP, and the homebuyer using an MCC loan must be given a Recapture Tax Notice at the time of application and again at closing, similarly to the procedure with MMP loans.

Please give the top sheet of the Recapture Tax Notice to MCC borrowers whose mortgage will be purchased by CDA from proceeds of taxable financing arranged by CDA. Please do not give the top sheet of the Recapture Tax Notice to borrowers applying for MCCs if you intend to fund their loan from your own sources.

In order to alleviate the confusion and worry about having to pay a recapture tax when the home is sold, CDA agrees to reimburse any homebuyer the amount of any recapture tax that the homebuyer pays in connection with the sale of the home provided that the loan is issued pursuant to the MMP administered by CDA.

CDA will not calculate the recapture amount. Upon sale or disposition of the residence, the borrower(s) must consult a personal tax adviser or the IRS.

In order to request a recapture tax reimbursement from CDA:

The borrower(s) first must instruct the IRS, by using IRS Form 4506, to send CDA a copy of each borrower's federal tax return covering the calendar year in which the residence was sold.

- On Form 4506, instruct the IRS to send the information to:

Maryland DHCD
Attn: CDA Single Family - Recapture Tax Reimbursement
100 Community Place, 4th floor
Crownsville, MD 21032

The borrower(s) must send a written request for reimbursement to CDA, by July 15th of the calendar year after the residence is sold, accompanied by the following:

- a copy of the signed HUD-1 Settlement Statement from the sale or disposition of the property;
- the address to which the reimbursement should be mailed; and
- any other documentation CDA may need to approve the reimbursement.

Submit requests for reimbursement to:

Maryland DHCD
Attn: CDA Single Family - Recapture Tax Reimbursement
100 Community Place, 4th floor
Crownsville, MD 21032

CDA will not act on the request for reimbursement until the copies of the borrower(s) tax returns are received from the IRS.

CDA will reimburse the Recapture Amount actually paid, but will not reimburse fees, interest, expenses or penalties incurred.

Be advised that CDA will issue an IRS Form 1099 so the amount of any recapture tax that CDA reimburses to the borrower will be reported to the IRS as income.

SECTION 1 - MCC APPLICATION AND RESERVATION PROCEDURES

1.1 APPLICATION REQUIREMENTS

A. Application Documents

In addition to presenting information concerning income, assets, debts, etc., at the time of application, the borrower must:

1. present an eligible, ratified contract of sale; if the property is involved in a short sale transaction, Lender approval of the transaction is required to meet the fully ratified sales contract requirement (see section on “Ineligible Use of Loan Proceeds” for further information on contracts of sale);
2. complete initial Buyer’s Affidavit;
3. complete a Uniform Residential Loan Application (Freddie Mac Form 65/ Fannie Mae Form 1003);
4. if buying in a non-targeted area, either present copies of Federal Income Tax Returns or acceptable alternatives for the previous three years (this requirement is waived if one of the borrowers is a veteran and provides Lender with a copy of their DD-214 – this exemption may only be used once); and
5. if the buyer owned or currently owns real property but meets the definition of a first-time home buyer (the first-time home buyer requirement is waived for a borrower with verified veteran’s status or a borrower purchasing in a targeted area), provide complete information to CDA, which may require that the property has been sold or will be sold and settled before the closing of the MHCP loan.

B. Preliminary Interview

Prior to requesting a reservation of MCCs through LOL, the Lender must interview the borrower to determine eligibility for the MHCP.

The Lender should give the borrower a Recapture Tax Notice in the Preliminary Interview and again at closing, pursuant to the Recapture Tax Notice instructions.

C. Limitation on Points, Fees and Charges

1. The Lender may charge points in an aggregate amount not to exceed the Lender's customary amounts for financings not assisted by MCCs. The payment of the points is negotiable between the buyer and the seller.

NOTE: The seller may pay all points if permitted by the applicable insurer/guarantor (FHA, VA or RHS).

2. Fees for processing MCC applications may be charged in accordance with MHCP Directives.
3. Lender may not charge any fees at time of application other than the MCC processing fee and amounts needed for a credit report, appraisal, flood certification, and home inspection.

1.2 MCC RESERVATION

- A. Lenders must submit reservations for MCCs through LOL. A fully ratified sales contract is required prior to submitting the reservation request. If the property is involved in a short sale transaction, Lender approval of the transaction is required to meet the fully ratified sales contract requirement. Detailed instructions for reserving funds are given at the LOL training.
- B. Your complete and eligible request will be processed by LOL and assigned a reservation number.

A sample reservation number would be: XXX-YYY-000001. The “XXX” designates the MHCP and indicates that an MCC is being reserved. The next three digits of the reservation number are the Lender Number (“YYY”).

The next six digits of the reservation number are the sequential MCC number (“000001”).

Reservations of MCCs are conditional on satisfaction of CDA requirements for the MHCP and on compliance with overall limits on the amounts of MCCs that may be issued under the MHCP.

1.3 DEADLINES

- A. Recommended Timeframe for Submitting Pre-Closing Compliance Package

When Pre-Closing Compliance Submissions are received, they are reviewed on a first-received, first-reviewed basis. Any conditions/exceptions will be listed on LOL.

To ensure sufficient time for compliance approval and maximum compensation to the Lender, the Pre-Closing Compliance package must be submitted to CDA within 30 days of the reservation date for loans on existing homes, DHCD-owned Foreclosure MHCP loans, Short Sale loans, non DHCD-owned Foreclosure loans and for loans on newly constructed homes. If this is not possible, a request for an extension (Attachment R) must be submitted to CDA.

1.4 RESERVATION PIPELINE REPORT

- A. The Lender can access information on LOL about its loan pipeline. **It is each Lender's responsibility to reconcile its loan pipeline, cancel inactive loans, and process extension requests as required (refer to Reservation Change Procedures that follow).**

1.5 RESERVATION RESTRICTIONS

A. Changes

1. Once MCCs have been reserved, major changes are prohibited except in unusual circumstances approved by CDA. Examples of prohibited changes include, but are not limited to:
 - a. Substitution or deletion of a household member from the Buyer's Affidavit, when inclusion of that household member's income would have resulted in the household income exceeding the MHCP's income limit for that jurisdiction.
 - b. Substitution of another property, except as a result of an unsatisfactory home inspection or failure of the seller to proceed with the sale.

Lenders should be careful when pre-qualifying borrowers so as to provide accurate income and loan amount information on LOL.

2. To request a change to a reservation, complete the Request for Change to Reservation of Funds (Attachment R) and submit it with all necessary documentation to CDA by fax only. The request will be reviewed and a response returned to the Lender by e-mail.

B. Duplicate Reservations

1. Different Interest Rates

LOL will accept the first reservation received for the borrower. Subsequent attempts to input another reservation for the same borrower will not be accepted.

2. Different Lenders

If a borrower has applied at two different Lenders, LOL will only accept the first reserved loan. It will be left up to the Lenders to determine who should proceed with the application.

C. Cancellation of Funds

1. If borrowers wish to withdraw their application from the MHCP after an MCC has been reserved, they should be informed that they may be prohibited from obtaining another reservation of funds for 12 months after the date they initially reserved the funds. The Lender requests the cancellation of a reservation by completing a Request for Change to Reservation of Funds (Attachment R) within **five business** days after the borrower's withdrawal from the MHCP.
2. Property inspection problems or refusal by the seller to make necessary repairs or complete the sale should be handled as a substitution of property. Upon receipt of a Request for Change to Reservation of Funds (Attachment R) with "Substitute New Property" selected, along with a release from the original contract of sale and the reason for the release, the Lender either must request that the original reservation be:
 - a. **deleted** [compensation to Lender based on the **new** reservation date] and the Lender then reserves an MCC on the new property; or
 - b. **retained** [compensation to Lender based on the **original** reservation date] and provides corrected information on the new property (address, purchase price, loan amount, etc.) under "Other".
3. If a borrower's loan request is declined due to eligibility or credit/affordability issues, the **reservation should not be canceled until all reconsideration processes have been completed. Within five business days** after the final denial, the Lender must request the cancellation of the reservation using the Request for Change to Reservation of Funds (Attachment R).

D. Assignments

Lenders may assign open (not canceled) reservations to other participating Lenders. The new Lender would complete a Request for Change to Reservation of Funds (Attachment R) and submit it to CDA with a copy of the assignment letter from the first Lender. The original reservation will be deleted by CDA and the new Lender will then be instructed to make a new reservation.

SECTION 2 - COMPLIANCE REQUIREMENTS

2.1 GENERAL BORROWER ELIGIBILITY

- A. Applications will be accepted with no discrimination as to race, color, religion, creed, national origin, sex, marital status, physical or mental disability or sexual orientation. Citizenship of the United States is not required; however, borrower must have a social security number and be eligible to work in the United States.

- B. Each single borrower and at least one of a married couple must be eighteen years of age or older.
- C. If married, both spouses are not required to apply.

NOTE: The Lender may not require the signature of a borrower's spouse or other person (other than a joint borrower) on any credit instrument if the borrower qualifies under the Lender's standards of creditworthiness for the amount and terms of the mortgage.

- D. If a non-borrowing occupant takes title to the property and appears on the Deed and Deed of Trust, the following must occur:
 - 1. The borrower and non-borrowing occupant must execute the Buyer's Affidavit and Buyer's Confirming Affidavit;
 - 2. If property is located in a non-targeted area, borrower and non-borrowing occupant must be first-time homebuyers and provide: 1) federal income tax returns for the preceding 3 years for the borrower and non-borrowing occupant OR 2) a tri-merge credit report that reflects a 3 year rental history (if the rental history is not reflected, a 3-year verification of rent is also required) OR 3) a copy of the DD-214, if the borrower is a veteran (the first-time homebuyer requirement is waived – this exemption may only be used once),
- E. If separated, a Separation Affidavit (Attachment A) must be completed by the borrower.
- F. Borrowers must be named on all the closing documents.
- G. Borrowers must intend to occupy the property as their principal residence within 60 days of the closing of the mortgage loan.

2.2 "PRESENT OWNERSHIP INTEREST" IN A PRINCIPAL RESIDENCE

Federal law defines a "first-time home buyer" as someone who has not had a "present ownership interest" in their principal residence at any time during the three years immediately preceding the date of the mortgage application. Borrowers purchasing in non-targeted areas must meet this definition of first-time home buyer. This requirement is waived if one of the borrowers is a veteran and provides Lender with a copy of their DD-214 – this exemption may only be used once. Borrowers purchasing in targeted areas do not need to meet this definition.

CDA requires that the borrowers sell or transfer their interest in any real property they own prior to the settlement on the MHCP loan, regardless of whether the property is their principal residence. If the current residence is deeded in the name of a non-borrower spouse, the borrower's spouse can use MCC assistance

only if the current residence is sold or transferred prior to closing. Federal tax law requires the new home to be the principal residence of the borrower, and it cannot be assumed that the new home will be the borrower's principal residence if the borrower's spouse also owns a home.

Individuals who are separated or divorced and had an interest in real property during the last three years may be eligible if they can document that they did not live in the property during the last three years. In addition, they must no longer have title to the property or will divest themselves of title to the property before the closing of the MHCP loan.

A. Ownership of a co-op unit occupied as a borrower's principal residence will disqualify the borrower.

B. Exclusions

1. A "present ownership interest" in a principal residence excludes:

- a. An ordinary lease, with or without a purchase option;
- b. The interest of a buyer under a standard residential purchase contract;
- c. An expectancy to inherit property; or
- d. A remainder or reverted interest.

2. A mobile home occupied as a borrower's principal residence will not disqualify the borrower unless the mobile home is/was permanently attached to real property owned by the borrower.

C. Targeted Areas

The prohibition against borrowers having had a "present ownership interest" in their principal residence does not apply to borrowers purchasing homes in federally designated targeted areas. However, if they still have title to the property, CDA may require that they divest themselves of the property before closing of the MHCP loan.

Targeted areas include the following:

ENTIRE COUNTIES/JURISDICTIONS OF:

Allegany, Baltimore City, Caroline, Dorchester, Garrett, Kent and Somerset

TARGETED CENSUS TRACTS/CITIES WITHIN NON-TARGETED COUNTIES

Anne Arundel	7406.02			
Baltimore Co.	the city limits of East Towson, Oella, West Catonsville plus Census Tracts:			
	4009	4011.02	4013.02	4023.05
	4207.01	4210	4211.01	4213
	4301.01	4303	4505.03	4505.04
	4513	4523	4906.05	4914.01
Frederick	7503	7505.05		
Harford	3029.01	3065		
Montgomery	7007.24	7014.22	7016.01	7032.13
Prince George's	the city limits of Brentwood, Capitol Heights, Colmar Manor, Fairmont Heights, Mt. Rainier, North Brentwood, and Seat Pleasant, plus Census Tracts:			
	8002.1	8019.08	8020.01	8021.04 8022.01
	8032	8034.01	8035.09	8035.25 8040.01
	8043	8048.01	8048.02	8049 8051.01
	8052.01	8056.01	8056.02	8059.06 8059.07
	8059.08	8059.09	8067.13	
Washington	the city limits of Hagerstown and any portions of Census Tracts 3.02, 4, 7, 8, 9 outside of the City of Hagerstown.			
Wicomico	1	3	5	102

2.3 **PROHIBITED OWNERSHIP INTERESTS IN CERTAIN PROPERTY**

At the time of closing on the MCC loan, borrowers may not have any ownership interests in certain types of property.

A. Property prohibited from ownership at the time of loan closing includes:

1. Any mobile home;
 2. Raw land;
 3. A building lot (except for the lot on which the house being financed has been built);
 4. Any principal residence;
 5. A vacation home;
 6. A rental property;
 7. An inherited property;
 8. Commercial property;
 9. Any jointly held property;
 10. A cooperative; and
 11. Any other real property.
- B. Property which may be owned at the time of loan closing includes:
1. a cemetery plot;
 2. a recreational vehicle lot; or
 3. a 1/20th (2.6 weeks) or less interest in a time sharing unit.
- C. In order to be eligible for MCCs, any borrower who has an ownership interest in any type of property listed in paragraph A must either:
1. provide a contract of sale for the property at the time of application and submit documentation, i.e., settlement sheet, title for mobile home, verifying the sale of the property prior to closing of the MHCP loan; or
 2. provide a copy of a deed showing that the borrower has divested ownership in the property.

2.4 IF PROPERTY IS LOCATED IN A “NON-TARGETED AREA”: 1) PROVIDE FEDERAL INCOME TAX RETURNS FOR THE PRECEDING THREE YEARS SUBSTANTIATING BORROWER’S STATUS AS A “FIRST-TIME HOME BUYER”; OR 2) PROVIDE A TRI-MERGE CREDIT REPORT THAT REFLECTS A 3-YEAR RENTAL HISTORY (IF THE RENTAL HISTORY IS NOT REFLECTED, ALSO PROVIDE A 3-YEAR VERIFICATION OF RENT); OR 3) PROVIDE A COPY OF DD-214 IF BORROWER IS A VETERAN

- A. Up until the current year's filing deadline, the borrower must submit signed tax returns with all schedules for the previous two years plus an executed Affidavit in Lieu of Current Year's Tax Returns (Attachment J) for the current year's tax return which has not yet been filed. If the current year's tax form has been filed, it should be submitted. For example, if the borrower applies on January 30th, he would provide tax returns for the two years prior to last year, as well as an executed Affidavit in Lieu of Current Year's Tax Returns (Attachment J) for last year, if the return is not yet filed.
- B. After the current year's filing deadline, the borrower must submit signed tax returns for last year plus the two years prior to last year. For example, if during the current year, the borrower applies after the IRS filing deadline, he would provide tax returns for last year plus the two years prior to last year.
- C. All tax returns must be signed by the borrower, including electronic returns and computerized summaries from the IRS. In addition, the top portion of the return (name, address and social security number) must be completed.
- D. Most types of returns as filed with the IRS, including electronic returns, are acceptable; however, the return must:
 - 1. be the type of return (for example, the 1040EZ or 1040A) which does not allow for the deduction of mortgage interest or real estate taxes. Note: If the Telefile Worksheet is used, the six-digit confirmation number must be filled in and the Worksheet signed by the borrower(s); OR
 - 2. be a return which includes information which would enable CDA to determine that the borrower claimed the standard deduction (1040 showing a standard deduction). If the information on the return indicates that the borrower did not claim a standard deduction, then a full copy of the return with all schedules must be provided
 - 3. If the tax returns have been reconstructed, a notarized affidavit from the borrower(s) must be provided stating that the returns are a true and correct reconstruction.

NOTE: Electronic Filing Summary, IRS Form 8453 is not acceptable because it does not provide the necessary information.
- E. IRS Form 4506T, Request for Transcript of Tax Return (Attachment B), can be used to request a transcript of the borrower's tax return(s). Make sure that you request the return plus all schedules.
- F. If the borrower was not required to file a tax return, he must provide an executed Affidavit Regarding Not Being Required to File Tax Return(s) (Attachment S) stating that he was not required to file and the reason why he was not required to file.

- G. If there is a non-borrowing occupant taking title to property in a non-targeted area, federal income tax returns for the preceding three years must also be provided unless tri-merge credit report and Verification of Rent provided and they reflect a 3 year history.

2.5 **ELIGIBILITY INCOME**

- A. Total Projected ANNUAL Household Income does not exceed applicable Income Limit

Total projected ANNUAL gross income from all household members occupying the property being purchased, except dependents less than 18 years old, may not exceed the applicable income limit for the MHCP. Income Limits may be found at <http://mmp.maryland.gov/Pages/Detailed-Income-Eligibility.aspx>. Income for household members who are 18 years old or older and enrolled full-time in high school or college should not be included in the total projected annual household income unless that individual is a borrower on the loan. An unborn child can be treated as an “individual” (household member) when the birth of the child will change the household size and result in an increase in the applicable Income Limit. A Certification of Pregnancy (Attachment T) must be completed and executed by the pregnant borrower’s physician.

- B. Projecting Eligibility Income at Time of Reservation

As of the date of **reservation**, the Lender must project the eligibility income for the year following the date of the loan closing for all household members, using the Income Eligibility Worksheet and Lender Certification (Attachment D) and information on income calculation in this Manual. This information should then be provided to the borrower to complete the Buyer's Affidavit.

- C. Verification of Income

The Lender will verify all sources of income (including part-time jobs, overtime, bonuses and commissions) for each household member who is 18 years old or older, except the income of full-time high school or undergraduate students, unless that individual is a borrower on the loan, and then project the anticipated household income for a period of 12 months from the date of the loan closing. The Lender will then prepare a final Income Eligibility Worksheet and Lender Certification (Attachment D) with the verified information and submit it in the Pre-Closing Compliance Submission.

If a household member 18 years or older has no income, then provide a notarized statement executed by the individual stating this.

Provide documentation to substantiate receipt of child support and/or alimony income by any household member.

Income may be documented by a standard written Verification of Employment ("VOE") or by Alternative Documentation (e.g., verbal VOE, one month's paystubs and previous two years' W-2's).

D. Calculating Income

Income from all applicable household members must be included in the eligibility income calculation. Any household member who is 18 years of age or older, and not a full-time high school or undergraduate student (unless a borrower), must provide documentation supporting their income. This documentation may include VOEs, "Work Number" verifications with detailed income information for the last three years plus one paystub or alternative documentation that includes: paystub(s) covering the most recent thirty-day period, the previous year's W-2 forms, and a verbal VOE ("Work Number" verification without detailed income information may be substituted for the verbal VOE).

NOTE: Lender should exclude income from sources listed under "Exclusions From Income" section.

1. Income To Be Included - Information on Calculating:

a. Base income

Take the base income from the most recent paystub or the VOE and annualize it. For example, if the borrower is paid a base income of \$1,150 biweekly, the biweekly amount should be multiplied by 26 to determine the borrower's annual base income of \$29,900.

NOTE: If there is a significant discrepancy in the base income calculated above and the year-to-date base income, a written explanation must be obtained from the employer in order to make an appropriate calculation.

The base income amount must be placed on the "Wages, Salaries, etc." line on the Income Eligibility Worksheet and Lender Certification (Attachment D).

➤ Documented future pay raises

Because of their arbitrary nature, it is not necessary to include future pay raises in the calculation of the eligibility income.

➤ Non-traditional

If a borrower is a teacher, it must be determined whether the borrower is paid over nine, ten or twelve months. For example, if

the borrower is paid over nine months and his/her income is \$2,000 per month, you would multiply the monthly amount by nine to determine the annual income of the borrower.

➤ Income of union workers (where the borrower had numerous jobs)

The income from all of the borrower's employers for the last two full calendar years would be totaled and divided by two to determine the borrower's average annual income.

b. Overtime, commission, and bonus income

Overtime and Commissions

This type of income must be projected in an amount consistent with the earnings history of the household member. Typically, this type of income may be averaged (if VOE obtained) by totaling the last two years plus year-to-date and then dividing by the total number of months this period represents and then multiplying by 12 to calculate an annual income. For example, if the year-to-date overtime is \$400 and it is as of March 8th and the overtime for last year was \$2,150 and for the prior year was \$2,000, the total overtime of \$4,550 is divided by 26.26, 24 months for the previous two years plus 2.26 months for the year-to-date overtime, which equals \$173.27 per month or \$2,079.24 per year.

NOTE: IF THERE IS A SIGNIFICANT INCREASE OR DECREASE IN OVERTIME, THEN AVERAGING MAY NOT BE ACCEPTABLE.

If the VOE shows current year-to-date overtime which is significantly (+/- 25%) higher or lower when annualized than previous years, it would NOT be consistent to average. Instead OT must be based on the current year to date OT unless the employer documents that it is seasonal or a single occurrence.

If the VOE combines base pay with overtime, the base pay and overtime must be calculated separately. A copy of the most recent paystub must be provided and must confirm the VOE information. If it doesn't, an explanation must be obtained from the employer in order to make an appropriate calculation. The projected OT amount must be placed on the "Overtime, etc." line on the Income Eligibility Worksheet.

If using alternative documentation (paystubs, W2's), take the year-to-date OT figure and annualize it. Compare this amount (added to

base and other sources of income) to last year's W2 income figure. If there is a significant increase or decrease (+/-25%), then additional documentation must be obtained from the employer explaining the discrepancy or the higher of the current year annualized income or previous year's W2 income must be used.

Bonus income

This type of income must also be projected in an amount consistent with the earnings history of the household member. You must first determine how this type of income is paid - it normally is earned in one year and paid at the beginning of the following year. If the VOE or alternative documentation is not self-explanatory, obtain a written explanation from the employer. Bonus income must be placed on the "Overtime, etc." line on the Income Eligibility Worksheet.

c. Business Income/Self-Employed Borrower

Total the NET income plus the depreciation and depletion from the most recent two tax years AND, after the first three months of the current year, also include the net income plus depreciation and depletion from a year-to-date profit and loss (P&L) statement and divide by the total number of months covered by the tax returns and the P&L statement. For example, if the total net income plus depreciation and depletion for the two tax years and the year-to-date P&L statement is \$72,500 and the year-to-date P&L statement is for five months, the total income of \$72,500 would be divided by 29 (24 months for the two tax years plus five months for the year-to-date P&L statement) and then the result should be multiplied by 12 to arrive at an annual income of \$30,000.

d. Interest, Dividends, etc.

Deduct the amount of estimated closing costs and any down payment from the available liquid assets as verified by bank or other asset statements (amounts in checking and savings accounts, stocks and bonds, equity in real property, etc.) and if the net value of the assets after closing is \$5,000 or more, multiply the amount by three percent (2%).

e. Insurance, Pensions, Social Security, Workman's Compensation and Other Periodic Payments.

This includes all periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, or other similar periodic payments including:

lump sum payments for the delayed start of a period payment; payments in lieu of earnings, such as unemployment and disability compensation, workmen's compensation and severance pay (see Exclusions From Income section).

f. Unemployment Compensation

If a borrower has a pattern of receiving unemployment compensation as evidenced by his/her tax returns or annual unemployment compensation statements, an average annual amount is calculated by totaling the unemployment compensation received for the last two years and dividing this amount by two. Place the total amount of unemployment compensation on the "Insurance, Pensions, etc." line on the Income Eligibility Worksheet.

g. Alimony or child support

Court ordered alimony and/or child support received by any household member MUST be annualized and the total amount placed on the "alimony/child support" line on the Income Eligibility Worksheet unless it is substantiated that scheduled payments have not been received. If no alimony and/or child support is received, enter "\$0" in the appropriate blank.

h. Public Assistance

This includes maximum amount of public assistance where such payments include amounts specifically designated for shelter and utilities that are subject to adjustment.

i. Gifts

Includes periodic and determinable payments and/or regular contributions received from someone not residing in the dwelling.

j. Allowances, etc.

Includes all regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of family or a spouse.

k. Tax Credits

Includes any earned income tax credit in excess of income tax liability.

2. Exclusions From Income

Exclude income from the following sources from the total household income calculation:

- a. Casual, sporadic or irregular gifts;
- b. Amounts which are reimbursements for the cost of medical expenses;
- c. Lump sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and workmen's compensation), capital gains and settlements for personal property losses (but see Subsection 1.e. "Income to Be Included" section);

Amounts of educational scholarships paid directly to the student or the educational institution, and amounts paid by the government to a veteran for use of such scholarships. Note: amounts which are available for subsistence are to be included income;

- d. Hazardous duty pay to a serviceman, away from home and exposed to hostile fire;
- e. Relocation payments made pursuant to Title II of the Uniform Relocation Assistance in Real Property Acquisition Policies Act of 1970;
- f. Foster child care payments (unless formerly adopted and receiving foster subsidy);
- g. Income of a live-in aide providing necessary support services for elderly, disabled or handicapped persons;
- h. Payments to volunteers under the Domestic Volunteer Service Act of 1973;
- i. The value of the allotment to an eligible household for coupons under the Food Stamp Act of 1977;
- j. Income from the employment outside the home of dependent children (including foster children) under the age of 18 years;
- k. Payments or allowances made under the Low Income Energy Assistance program; and
- l. Payments received from the Job Training Partnership Act.

3. Complete a new Income Eligibility Worksheet and Lender Certification (Attachment D) with the verified information and submit in the Pre-Closing Compliance File.
4. If, upon verifying income, the borrower's annual household income exceeds the income limit, the Lender must reject the loan application. The borrowers have the right to request a reconsideration of your decision. See "Eligibility Reconsideration" section.
5. Reductions in Income. The following household income reductions will make a borrower ineligible for an MCC:
 - a. Borrower(s) taking a voluntary reduction in pay or voluntarily terminating a job within six months of the date of application when that prior income would have made the borrower ineligible for an MCC.
 - b. Deletion of a borrower from the loan application or a household member from the Buyer's Affidavit when that person's income would have made the borrower ineligible for an MCC.

E. Pre-Closing Compliance Review of Income

1. The Income Eligibility Worksheet and Lender Certification (Attachment D) indicates that the income is within the income limit for the MHCP.
2. Applications for which the eligibility income exceeds the income limit for the MHCP will not be approved at the pre-closing compliance review. If incomes are determined to be ineligible during quality control reviews, the affected MCC will be revoked.

F. Confirming Income at Settlement

The borrower will complete the Buyer's Confirming Affidavit at settlement and indicate whether the anticipated eligibility income or any other eligibility information has changed.

2.6 **ASSETS**

A. Borrower's Required Investment in the Property

The borrower's required investment in the property is the minimum required by the insurer/guarantor. A borrower's sweat equity investment which meets requirements of the insurer/guarantor is acceptable under the MHCP.

B. Asset Test Procedure

The Asset Test Worksheet is only completed for borrowers whose liquid assets equal or exceed 20% of the purchase price of the property. Included in liquid assets are gifts in the form of cash or equity.

A “Gift of Equity” is defined as the difference between the loan amount and the appraised value in a “non-arms length” transaction (i.e., parent to child, employer to employee). Borrowers with liquid assets equal to 20% or more of the sales price may not be eligible for the MHCP if they can afford a mortgage at the applicable asset test interest rate (call 410-514-7530 and ask any underwriter or processor to provide you with the asset test interest rate for the applicable reservation date and point program). The Lender will verify all assets (see below) for each borrower by obtaining written Verifications of Deposit or alternative documentation (one month's most recent bank statement for each account as of the date of reservation) and list them on the Fannie Mae Form 1003/Freddie Mac Form 65 Loan Application.

The computations on the Asset Test Worksheet will indicate that the loan application is eligible OR a waiver has been pre-approved by CDA. The Worksheet must be completed, signed and dated by the Lender’s authorized representative.

1. When calculating a borrower’s assets, all assets are to be considered, including, but not limited, to the following:
 - a. Items paid outside of closing (examples include but are not limited to: appraisal, credit report, home inspection and deposit on property);
 - b. Savings accounts;
 - c. Checking accounts;
 - d. Certificates of deposit;
 - e. The total balance of any joint accounts;
 - f. Money market or mutual fund accounts;
 - g. In trust for accounts (amount accessible);
 - h. Chapter S corporate bank accounts (borrower owner of the Chapter S corporation);
 - i. Any other bank accounts;
 - j. Any stocks or bonds;
 - k. Funds from gift letters;

- l. Any funds derived or to be derived from the sale of real property, any mobile home or other property prior to loan closing. Documentation showing net proceeds from any such sale is required;
- m. Amount used or borrowed from a life insurance policy, IRA or 401K (less penalty); and
- n. Gifts of equity (difference between the appraised value and the purchase price) in a non-arms length transaction [if it is necessary to complete the Asset Test Worksheet (Attachment F), the appraised value is listed on line 1 of the Asset Test Worksheet].

2. Exclusions

- a. The cash surrender value of a life insurance policy, the value of an IRA account or the value of a 401k account may be excluded from the liquid assets as well as from the Income Eligibility Worksheet unless the borrower intends to use or borrow against a portion of his policy or account for settlement expenses. In this instance, only the amount being used or borrowed, less any penalty, is to be included in the liquid assets.
- b. The value of a lot on which the borrower is building a home to be financed by the MHCP loan may be excluded.
- c. Proceeds from any secondary financing or grant used for the purchase of the home.
- d. Relocation benefits under the Federal Uniform Relocation Act in connection with condemnation proceedings (to be substantiated by a letter in the Pre- Closing Compliance Submission).

3. Exception

An exception to this policy may be made, with the prior written approval of CDA, when all three of the following conditions are met;

- a. the borrower's household income is at or below 55 percent of statewide median income for a family of four, as published by HUD;
- b. the regular income is fixed, such as pension or social security; and
- c. the interest or dividend earnings on the assets equal at least 50 percent of the total household income.

2.7 **PROPERTY REQUIREMENTS**

A. Priority Funding Areas

Under the MHCP, **ONLY New Construction must be located in a Priority Funding Area.** **NOTE:** A Priority Funding Area is an older community or locally-designated growth area where State and local governments already have a significant financial investment in the existing infrastructure and want to target their efforts to conserve natural resources and farmland while encouraging and supporting sensible economic and residential growth. Municipalities, Baltimore City, areas inside the Baltimore and Washington beltways, neighborhoods which have been designated by the Maryland Department of Housing and Community Development for revitalization, Enterprise Zones, and Heritage Areas within county designated growth areas are priority funding areas. Counties may designate additional priority funding areas that meet established minimum criteria. If new construction, e-mail property address to: abutler@mdp.state.md.us for Priority Funding Area confirmation.

Please note: Priority Funding Areas and Targeted Areas have different meanings.

B. Residences over one year old that have not been previously occupied are considered existing units.

C. Occupying the Residence

Buyers must intend to occupy the residence within 60 days of settlement. However, a post settlement rental agreement with the seller is permitted if the seller is waiting for completion of a new home and the completion is expected to be within 120 days.

D. Eligible residences include single-unit residences that are:

1. detached, one-half of a duplex (semi-detached), or attached (townhouse) units;
2. modular homes that have the State seal of approval; and
3. condominium units approved by the insurer/guarantor.

E. Ineligible Residences Housing types excluded from the MHCP are:

1. Manufactured housing (mobile homes);
2. Cooperatives;
3. Rental homes or any home a portion of which is to be rented;
4. Investment homes;

5. Properties from which a trade or business is conducted in the principal structure or outbuildings without the prior written CDA approval of the proposed business use. Refer to the Additional Buyer's Affidavit Relating to Business Use of Residence (Attachment N);
6. "Like Kind" exchange properties under Section 1031 of the Internal Revenue Code UNLESS PRE-APPROVED BY CDA (See Section 2.8H); and
7. Properties purchased through the sale of contract rights.

Please note: residences with in-ground swimming pools may not be financed with an RHS-guaranteed loan.

See Ineligible Use of Loan Proceeds (Section 2.8) for further information.

F. Proposed Business Use of Residence

1. The Additional Buyer's Affidavit Relating to Business Use of Residence (Attachment N) must be submitted to and approved by CDA prior to the submission of the Pre-Closing Compliance submission.
2. For all business use, other than daycare services, the applicable percentage of the residence that is used for the business is the Percent of the Area. For daycare services, the applicable percentage of the residence that will be used for daycare is the Use Percentage. If the applicable percentage calculated under 4(c) or 4(d)(ii) in the Additional Buyer's Affidavit Relating to Business Use (Attachment N) exceeds 15%, the business use will not be approved.
3. In addition, if a deduction will be claimed for federal income tax purposes for the business use of the residence and it will exceed 15%, the Business Use will not be approved.
4. The Additional Buyer's Affidavit Relating to Business Use of Residence (Attachment N) approved by CDA must be included in the Pre-Closing Compliance Submission.

G. Maximum Lot Size

The maximum lot size under the MHCP is:

1. the greater of 1 acre or the jurisdictional minimum for ***urban and suburban areas***; or
2. the greater of 3 acres or the jurisdictional minimum for ***rural areas***. Jurisdictional minimums must be confirmed by the local zoning office.

H. Maximum Loan Amount

The maximum loan amount is \$417,000.

1. For FHA loans, the lesser of \$417,000 or the FHA Maximum Mortgage Amount, **plus** the FHA Up Front Mortgage Insurance Premium (UFMIP).
2. For VA, base loan amount plus VA funding fee may not exceed \$417,000.

I. Maximum Acquisition Cost

Acquisition cost for the purpose of the MHCP is defined in accordance with the Internal Revenue Code of 1986, as amended, and is to be reflected in the initial Buyer's Affidavit.

1. The total acquisition cost of the property must not exceed the limit established by CDA for the applicable jurisdiction. These limits may change from time to time in accordance with requirements of the MHCP and the federal government.
2. If, prior to loan closing, there is an increase in the total acquisition cost of the property and the new total exceeds the applicable limit, the property is no longer eligible and the loan cannot be purchased and should not be closed.
3. Exclusions from the acquisition cost calculation are:
 - a. Customary closing costs;
 - b. Prepaid expenses;
 - c. Points and origination fees; and
 - d. Any financed UFMIP or VA funding fee.
4. The calculation for the acquisition cost must include:
 - a. the contract sales price less the cost of personal property (the cost of fixtures is not deducted) included in the price;
 - b. any capitalized ground rent, the amount of which is to be calculated using a ground rent factor of 200. The capitalized ground rent is determined by multiplying 200 times the monthly ground rent. (EXAMPLE: Yearly ground rent of \$120 divided by 12 equals a \$10 monthly ground rent. Monthly ground rent of \$10 times 200 equals \$2,000, which is the amount of the capitalized ground rent to be listed in the Buyer's Affidavit);

- c. any additional costs to complete the dwelling not included in the sales contract, such as options, well and septic systems, other site development costs, any contemporaneous arrangement for other work or services in completing or adding to the dwelling, and/or the cost of replacing fixtures removed by the seller;
- d. any other financial consideration between the buyer and the seller in connection with the property such as UDAG/CDBG grants, site completion, etc.; and
- e. the appropriate value of a lot owned by the borrower for two years or less on which the dwelling is to be built;

(1) Value for Buyer's Affidavit

When a dwelling is to be built on a lot owned by the borrower for two years or less, the greater of the cost or current appraised fair market value of the lot must be included in the Buyer's Affidavit for determining the acquisition cost.

(2) Financing Criteria

When a dwelling is to be built on a lot owned by the borrower for two years or less, either free and clear or by a mortgage having an initial term and any subsequent term not exceeding two years, it may be mortgaged through the MHCP up to an amount equal to the payoff of any lot loan and closing costs.

(3) Mortgage Loan Limit

The mortgaged value attributable to the lot may not exceed the lesser of its cost to the borrower or its current appraised value. The borrower, in either of these circumstances, must submit evidence of the cost of the land and the term(s) of any temporary financing.

- f. the appropriate value for a lot owned by the borrower for more than two years;

(1) Value for Buyer's Affidavit

When a dwelling is to be built on a lot owned by the borrower for more than two years, a zero value must be reflected in the Buyer's Affidavit.

(2) Not Financeable

A lot owned by the borrower for more than two years may not be mortgaged through the MHCP and the home being built is eligible only if the lot is currently owned free and clear.

J. Property Appraisal

A current appraisal is required, with the originating Lender as the “client”.

2.8 INELIGIBLE USE OF LOAN PROCEEDS

Except as authorized in writing by CDA, no portion of the proceeds of a certified mortgage loan may be used to:

- A. enrich the borrower;
- B. refinance, directly or indirectly, an existing mortgage loan or loans of the borrower on the residence other than:
 - 1. a qualified lot loan (see 2.7.I, 4 e(2) & (3)); and
 - 2. a construction loan or a bridge loan or other similar temporary initial financing.
- C. pay any financing or settlement costs (except for any financed FHA UFMIP or VA funding fee) or any other adjustments on an FHA-insured loan;
- D. pay the cost of any items deducted from the sales contract price in computing the acquisition cost of the residence as identified in the Buyer’s Affidavit;
- E. finance a land installment contract;
- F. finance a wraparound mortgage;
- G. facilitate the selling of contract rights; or
- H. finance a “like-kind” exchange of properties under Section 1031 of the Internal Revenue Code (“1031 exchange”), **UNLESS A CDA LEGAL REVIEW IS PERFORMED PRIOR TO THE CLOSING.**

SECTION 3 - COMPLIANCE REVIEW AND SUBMISSION

3.1 PRE-CLOSING COMPLIANCE

- A. Delivery of Pre-Closing Compliance Package

Participating Lenders shall submit to CDA a Pre-Closing Compliance package for the first (Attachment CC) and second (Attachment DD) mortgage loan, if applicable, for compliance review/approval.

The checklist lists all the documents required for submission of a Pre-Closing Compliance package to CDA for approval. The package must be submitted with the documents in the order shown on the checklists before CDA will approve the loan for Pre-Closing Compliance. Loan packages must be submitted in a PDF file to eDocs on Lender-Online:

<https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection>

CDA will review each file to verify that all documentation is complete and that the loan file is in conformity with the terms and conditions of this Manual and the Agreement.

All applicable affidavits must be accurately completed and included in the package submitted to CDA. CDA does not have ability to alter or waive any applicable affidavits.

The Pre-Closing Compliance package will be reviewed on a “first-submitted, first-reviewed” basis. CDA will notify the Lender via LOL of any deficiencies ("Compliance Conditions") in the Pre-Closing Compliance package. It is the Lender’s responsibility to review and respond promptly to any documentation requirements for Pre-Closing Compliance approval.

Compliance Conditions are to be submitted to eDocs on Lender-Online according to document requirements in LOL

<https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection>

B. Compliance Package Review

It is the Lender’s responsibility to certify that each borrower and the property submitted for compliance review meets the eligibility requirements as stated in this Manual.

1. The Lender must thoroughly investigate each area of eligibility and collect sufficient documentation to establish compliance with the requirements.
2. The Lender must sign the Income Eligibility Worksheet and Lender Certification (Attachment D), which contains a Lender Certification section, for each loan.
3. Once the “UW/Compl Review” status is listed as “APPROVED” in LOL, the Lender may close the loan.

3.2 **POST-CLOSING COMPLIANCE**

A. Delivery of Post-Closing Compliance Packages

Immediately after closing, Lender shall submit a Post-Closing Compliance package for the first (Attachment EE) and second (Attachment FF) mortgage loan to CDA for compliance review/approval.

Submit package in PDF to eDocs on Lender-Online

<https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection>

Post-Closing Compliance packages will be reviewed on a "first-submitted, first-reviewed" basis. CDA will notify the Lender via LOL of any deficiencies ("Compliance Conditions") in the Post-Closing Compliance package. It is the Lender's responsibility to review and respond promptly to any documentation requirements for Post-Closing Compliance approval.

Compliance Conditions are to be submitted to eDocs on Lender-Online according to document requirements in LOL

<https://lol.dhcd.state.md.us/Bin/Display.exe/ShowSection>

B. CDA Post-Closing Compliance Approval

If the Post-Closing Compliance package is complete and meets all of the eligibility criteria for MCC compliance, CDA will approve the Post-Closing Compliance package and the approval will be listed on LOL as "Commit/Complan/APPROVED on *[the date of approval]*". The "Commit/Complan/ APPROVED" status in LOL indicates that a Post-Closing Compliance review of the loan has been performed, and the loan is in compliance as of the time of the Post-Closing Compliance review. It is recommended that the Lender print the LOL Loan Status page for their records.

C. CDA Compliance Approval Certificate

Approval certificates can be generated once the "Commit/Complan" stage status is listed as APPROVED in LOL.

D. Denial

If the post-closing compliance package does not meet the eligibility criteria for the MHCP, the Lender will receive a denial letter by fax and by mail. This letter will indicate the reason(s) for ineligibility. After a denial letter is issued, the borrower/Lender must request eligibility reconsideration within 30 days or the MCC will be revoked. However, the original Reservation Expiration Date is still in effect.

E. Eligibility Reconsideration

Should the Lender or CDA determine that a borrower is not eligible for the MHCP, the Lender must inform the borrower of the right to request a reconsideration of the denial.

1. Each reconsideration request must be made in writing by the borrower, be submitted through the Lender within 30 days of the denial notice, and contain the following information:
 - a. a cover letter from the Lender requesting consideration of the borrower's request;
 - b. a copy of the letter from the Lender rejecting the borrower's application;
 - c. the borrower's signed reconsideration request;
 - d. a copy of the loan application;
 - e. documentation describing the basis for the request;
 - f. a copy of all the information and documentation submitted by the borrower supporting the basis of the reconsideration request; and
 - g. a copy of the Income Eligibility Worksheet and income documentation when income is the issue.
2. All reconsideration requests are to be mailed to:

CDA/Single Family Housing
MCC Reconsideration Committee
100 Community Place, 4th Floor, Room 4.300
Crownsville, Maryland 21032-2023
3. The Reconsideration Committee will review each reconsideration request and will notify the Lender and the borrower of the final decision. Any questions concerning a reconsideration request should be directed to CDA at (410) 514-7530.
4. The financing of any mortgage loan as a result of a successful reconsideration is subject to the availability of MHCP funds at the time of approval.

SECTION 4 - ISSUANCE OF MORTGAGE CREDIT CERTIFICATE

- A. Issuer to provide MCCs via Lender Online
 1. Lender will download the MCC from Lender Online, provide a copy to Borrower, and retain a copy.

2. CDA will download the MCC from Lender Online, retain a copy, and send one copy to the Secretary of Maryland Department of Business and Economic Development, if required.

SECTION 5 - REPORTING AND RECORDKEEPING REQUIREMENTS

A. Lender Reporting Requirements

1. Any Lender that makes a mortgage loan in conjunction with the MHCP and provides a certified indebtedness amount must submit IRS Form 8329, annually, on or before January 31 of the year following the calendar year to which the report relates.
2. A separate Form 8329 shall be filed for each issue of MCC with respect to which the Lender made mortgage loans during the preceding calendar year.
3. A copy of Form 8329 must be submitted to CDA.

B. Lender Recordkeeping Requirements

1. Lenders must retain certain information on their books and records for 6 years following the year in which the loan was made.
2. With respect to each loan, Lenders must retain the following information:
 - a. The name, address, and TIN of each holder of a qualified MCC with respect to which a loan is made;
 - b. The name, address, and TIN (526002033) of CDA; and
 - c. The date the loan for the certified indebtedness amount is closed, the certified indebtedness amount, and the Certificate Credit Rate of the MCC.

C. Failure to File

1. Failure to file the Form 8329 could result in penalties imposed by the IRS.

D. CDA Reporting Requirements

1. CDA shall file quarterly reports with the IRS on Form 8330 and annual reports of mortgagor income and targeted area loans as required by Treas. Reg. § 1.25-4T.